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SUBJECT: AMBASSADOR VISIT TO FORD AND PG PLANTS AND BRENT
SCHOOL

REF: 05 MANILA 5922

Summary

¶11. Ambassador and Emboffs visited the Ford Motor Company manufacturing plant, the Procter and Gamble factory, and Brent International School during a trip south of Manila on April 21. Ford Philippines' vehicle exports to Southeast Asia have earned \$571 million since 2002, making it the only automobile company here with a positive trade balance. In October 2006, Ford's plant will commence production of a flexible fuel engine that uses up to 20% ethanol. Procter & Gamble expressed optimism about the continued growth of its consumer product sales, a result of successfully tailoring products and marketing to the Philippine consumer. The Brent School is an important community service supporting foreign investors and U.S. Embassy families. End Summary.

Ford Plant Boosts Philippine Exports

¶12. On April 21, the President of Ford Group Philippines, Henry Co, escorted the Ambassador, FCS Counselor, and Econoffs on a tour of Ford's 30,000 square meter facility on its 42-acre site in Santa Rosa, about 30 miles south of Manila. The Ford plant, built in 1998-99 with an initial investment of \$200 million, is the company's fourth largest in Asia, producing up to 36,000 vehicles a year. Co noted that Ford makes its completely built-up units (CBUs) from start to finish in just 12 hours. The plant produces four models - the Focus, the Escape, and two Mazda-brand cars. Co said Ford's market share has risen from 4% in 1999 to 9% in 2005, but still lags behind Toyota (37%), Mitsubishi (13%), and Isuzu and Honda (10% each).

¶13. Since the plant began exporting in 2002, Ford has sold 43,000 vehicles to Thailand, Indonesia, Malaysia, and Singapore for total export sales of \$571 million. It is the only volume exporter of vehicles in the Philippines. (Note: Toyota is the only other local manufacturer of CBUs.) The company's \$420 million in total exports of CBUs and parts in 2005 far exceeded its \$191 million in imports, making it the only automotive company with a positive trade balance in the country. Co said Ford is also one of the largest buyers of Philippine-sourced components among exporters, buying several million dollars worth of parts each year to support local businesses.

¶4. Much of our discussion with Ford centered on the recent launch of its Flexible Fuel Engine Project. With an investment of \$20 million, the Ford plant will commence commercial production in October of the first engines in ASEAN and the second in Asia (after Japan) that will run on gasoline blended with up to 20% ethanol. Ford managers anticipate that, at current gas prices, consumers will save up to \$1 per gallon by using the ethanol blend in comparably priced cars. Besides appealing to economy-minded and eco-friendly clientele, Co remarked that the program supports U.S. as well as GRP efforts to encourage alternative fuels. Ford received a number of financial incentives for building its flex-fuel engines in the Philippines, including a zero duty on imports of components, a \$400 per vehicle export credit that Ford will use to "buy down" import duties on its Expedition, and lower excise taxes. Co said the Philippines is progressive compared to other Southeast Asian countries because it bases its excise tax on auto value rather than specifications, making tax avoidance difficult.

¶5. The Santa Rosa plant employs 1080 non-unionized workers it calls "partners." Ford practices complete disclosure and provides financial training so its employees can help evaluate company performance and establish production targets. Morale and efficiency at the plant are very high because workers see themselves as directly involved in the company's success. At the end of the visit, Ambassador spoke to about 400 enthusiastic employees, recognizing Ford's dynamic workforce for its manufacturing excellence and economic contributions. She also noted the generosity and civic-mindedness of employees, who organize and

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participate in community volunteer projects in health and the environment.

Ford's Business Challenges

¶6. Ford executives identified a number of business challenges they face in the Philippines, and the areas of potential cooperation with the U.S. Embassy:

-- The Philippines remains one of the smallest car markets in ASEAN, with the lowest tariff protection. Ford execs attributed stagnant domestic car sales to these conditions.

-- The Philippines' parts-support industry remains underdeveloped.

-- Continued need to affirm and implement the Supreme Court decision authorizing the Subic Customs Agency to enforce anti-smuggling laws. (Note: Imported used cars ostensibly brought into the Subic export processing zone to be re-worked and re-exported had been easily smuggled into the Philippine market because Subic Customs officials technically lacked jurisdiction. End note.)

-- The Philippine and Japanese Governments are completing negotiations on a Japan-Philippine Economic Partnership Agreement (JPEPA) that would eliminate tariffs on vehicle and auto part imports from Japan, placing GM, Ford, and European car companies at a disadvantage. Ford successfully lobbied to push back the tariff reduction until 2013, giving the automobile industry time to adjust. (Note: This represents an additional three years beyond the 2010 date in the draft agreement under discussion several months ago (reftel), to Ford's significant advantage. End note.) Ford still seeks assurances of responsible implementation of the agreement to ensure protection of its business interests.

-- A proposed alternative fuels bill may mandate a 5%

ethanol mixture in gasoline, but the Philippines has no ethanol refineries or gas stations. Co hopes that the market will overcome this "chicken and egg" problem by the time Ford's flexible fuel cars hit the streets.

Procter and Gamble - Major Asian Hub

17. Procter and Gamble (P&G) Finance Manager Jesse Teo briefed the Ambassador on the company's history and operations at its nearby plant in Cabuyao. P&G traces its manufacturing roots in the Philippines back to 1935 when its Manila purchase became the first P&G plant in Asia. In 2005, P&G pledged to invest another \$30 million in its current facility making it a manufacturing and service hub for Asia. The integrated plant manufactures detergent, soaps, diapers, dishwashing liquid, and paper products. It is a local market leader in these consumer categories.

18. P&G has reaped the benefits of a carefully tailored marketing strategy for the Philippines by targeting low income households and offering single-use ("sachet") packets of product. The small quantity makes the product affordable for consumers on a tight budget who do not have the disposable income to buy in bulk. The product line also makes adjustments for local culture and infrastructure. For example, P&G manufactures a bar soap to rub on clothing in support of this traditional method of pre-treating laundry. In addition, Tide detergent is tweaked for efficiency in the country's hard water conditions. P&G directly employs 1000 workers and sub-contracts an additional 2000 workers. The company sponsors a program to build housing for impoverished Filipino families in the area, with employees assisting in the construction. In 2005, the company built 70 homes to mark its 70-year anniversary in the Philippines.

19. Although P&G's paper and cleaning products are doing well in the local economy, some items such as Pringles chips are too expensive for Filipino consumers. The company executives acknowledge that snack foods are not a core product in the Philippines or in P&G's global market. In October 2005, P&G completed a merger with the Gillette Company and will begin incorporating razors and batteries into its diverse product line.

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Brent International -- an Embassy School Option

110. Ambassador toured Brent International School Manila with administrators and the School Board Chairman. Most U.S. Mission employees send their children to the International School of Manila with its close proximity to the housing pool, but 29 U.S. Embassy dependents attend the five-year old Brent campus. Koreans are the largest nationality at the school, followed by Filipino, American and Japanese students. The administrators attributed the growing population of Korean students to high quality instruction in English and strong cohesion and values in the community. Brent's student population has increased recently to near capacity because of the growing number of expatriates and Philippine families returning from overseas living in the south Manila exurbs. Despite the growing number of students, the administration remains dedicated to individual attention; small classes remain the standard. The School Board, which includes an Embassy representative, prides itself on running "like a business" and moves quickly to deliberate and act on issues that could affect admissions. The American Chamber of Commerce of the Philippines notes that the availability of international schooling options, such as Brent, is an important factor for foreign investors relocating to the Philippines.

KENNEY